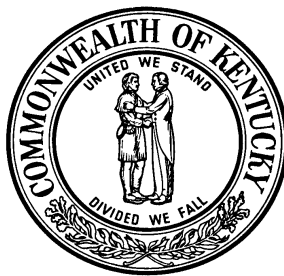


**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CALLOWAY COUNTY FISCAL COURT**

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Calloway County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activity, and each major fund of Calloway County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$17,127,275 as of June 30, 2011. The fiscal court had unrestricted net assets of \$8,004,416 in its governmental activities as of June 30, 2011, with total net assets of \$17,098,770. In its business-type activity, total net cash and cash equivalents were \$16,375 with total net assets of \$28,505. The fiscal court had total debt principal as of June 30, 2011 of \$2,214,909 with \$381,397 due within the next year.

Report Comments:

- 2011-01 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure
- 2011-02 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Liabilities And Debt Service
- 2011-03 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Sale Of Road Materials At The County Road Department

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activity, and each major fund of Calloway County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calloway County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Calloway County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, and each major fund of Calloway County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2012 on our consideration of Calloway County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2011-01 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure
- 2011-02 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Liabilities And Debt Service
- 2011-03 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Sale Of Road Materials At The County Road Department

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 7, 2012

CALLOWAY COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Larry Elkins	County Judge/Executive
Johnny Gingles	Magistrate
Eddie Clyde Hale	Magistrate
Connie Morgan	Magistrate
Bobby Stubblefield	Magistrate

Other Elected Officials:

David Harrington	County Attorney
Phil Hazle	Jailer
Ray Coursey, Jr.	County Clerk
Linda Avery	Circuit Court Clerk
William Marcum	Sheriff
Ronnie Jackson	Property Valuation Administrator
Ricky Harris	Coroner

Appointed Personnel:

Anita Gallimore	County Treasurer
Jodie Brooks	Road Supervisor
Tonya Robinson	911 / Solid Waste Administrator
Julie Robertson	Jail Administrative Assistant

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

CALLOWAY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 8,010,780	\$ 16,375	\$ 8,027,155
Total Current Assets	8,010,780	16,375	8,027,155
Noncurrent Assets:			
Land and Land Improvements	348,227		348,227
Capital Assets - Net of Accumulated Depreciation			
Buildings	6,912,550		6,912,550
Equipment	1,275,900		1,275,900
Vehicles	545,463	12,130	557,593
Infrastructure	2,220,759		2,220,759
Total Noncurrent Assets	11,302,899	12,130	11,315,029
Total Assets	19,313,679	28,505	19,342,184
LIABILITIES			
Current Liabilities:			
Bonds Payable	255,000		255,000
Financing Obligations Payable	126,397		126,397
Total Current Liabilities	381,397		381,397
Noncurrent Liabilities:			
Bonds Payable	1,720,000		1,720,000
Financing Obligations Payable	113,512		113,512
Total Noncurrent Liabilities	1,833,512		1,833,512
Total Liabilities	2,214,909		2,214,909
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,087,990	12,130	9,100,120
Restricted For:			
Debt Service	6,364		6,364
Unrestricted	8,004,416	16,375	8,020,791
Total Net Assets	\$ 17,098,770	\$ 28,505	\$ 17,127,275

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,910,325	\$ 387,953	\$ 449,833	\$
Protection to Persons and Property	1,496,905	1,211,022	163,114	51,967
General Health and Sanitation	394,920	7,648	96,376	
Social Services	31,264			
Recreation and Culture	167,797			
Roads	921,740	59,111	1,412,918	707,167
Airports	15,000			
Debt Service	131,522			
Capital Projects	851,093			
Total Governmental Activities	6,920,566	1,665,734	2,122,241	759,134
Business-type Activities:				
Jail Canteen	129,415	126,215		
Total Business-type Activities	129,415	126,215		
Total Primary Government	\$ 7,049,981	\$ 1,791,949	\$ 2,122,241	\$ 759,134

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu of Tax

Excess Fees

Miscellaneous Revenues

Interest Received

Gain on Disposal of Capital Asset

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,072,539)	\$	\$ (2,072,539)
(70,802)		(70,802)
(290,896)		(290,896)
(31,264)		(31,264)
(167,797)		(167,797)
1,257,456		1,257,456
(15,000)		(15,000)
(131,522)		(131,522)
(851,093)		(851,093)
(2,373,457)		(2,373,457)
	(3,200)	(3,200)
	(3,200)	(3,200)
(2,373,457)	(3,200)	(2,376,657)
1,783,093		1,783,093
170,966		170,966
264,052		264,052
538,595		538,595
225,223		225,223
174,586		174,586
107,160		107,160
155,012	51	155,063
3,731		3,731
3,422,418	51	3,422,469
1,048,961	(3,149)	1,045,812
16,049,809	31,654	16,081,463
\$ 17,098,770	\$ 28,505	\$ 17,127,275

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

CALLOWAY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Jail Fund	Public Properties Corporation	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,339,890	\$ 235,384	\$ 4,429,142	\$ 6,364	\$ 8,010,780
Total Assets	<u>3,339,890</u>	<u>235,384</u>	<u>4,429,142</u>	<u>6,364</u>	<u>8,010,780</u>
FUND BALANCES					
Restricted For:					
Debt Service				6,364	6,364
Assigned To:					
Protection to Persons and Property	1,381,834		4,429,142		5,810,976
Roads		235,384			235,384
Unassigned	<u>1,958,056</u>				<u>1,958,056</u>
Total Fund Balances	<u>\$ 3,339,890</u>	<u>\$ 235,384</u>	<u>\$ 4,429,142</u>	<u>\$ 6,364</u>	<u>\$ 8,010,780</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 8,010,780
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	15,412,473
Accumulated Depreciation	(4,109,574)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year - Bonds and Financing Obligation Principal Payments	(381,397)
Due In More Than One Year - Bonds and Financing Obligation Principal Payments	<u>(1,833,512)</u>
Net Assets Of Governmental Activities	<u>\$ 17,098,770</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Jail Fund	Public Properties Corporation	Total Governmental Funds
REVENUES					
Taxes	\$ 2,708,796	\$	\$ 22,316	\$	\$ 2,731,112
In Lieu Tax Payments	225,223				225,223
Excess Fees	174,586				174,586
Licenses and Permits	63,456				63,456
Intergovernmental	668,033	2,113,954	1,225,708	324,498	4,332,193
Charges for Services	7,648		110,296		117,944
Miscellaneous	76,113	60,507	37,500		174,120
Interest	52,555	1,181	101,276		155,012
Total Revenues	<u>3,976,410</u>	<u>2,175,642</u>	<u>1,497,096</u>	<u>324,498</u>	<u>7,973,646</u>
EXPENDITURES					
General Government	2,072,233				2,072,233
Protection to Persons and Property	158,084		1,242,762		1,400,846
General Health and Sanitation	394,680				394,680
Social Services	31,264				31,264
Recreation and Culture	135,846				135,846
Roads	6,131	1,470,079			1,476,210
Airports	15,000				15,000
Debt Service		187,774		323,648	511,422
Capital Projects		851,093			851,093
Administration	303,265	308,035	346,826	850	958,976
Total Expenditures	<u>3,116,503</u>	<u>2,816,981</u>	<u>1,589,588</u>	<u>324,498</u>	<u>7,847,570</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>859,907</u>	<u>(641,339)</u>	<u>(92,492)</u>		<u>126,076</u>
Other Financing Sources (Uses)					
Transfers To Other Funds	(625,000)				(625,000)
Transfers From Other Funds		625,000			625,000
Total Other Financing Sources (Uses)	<u>(625,000)</u>	<u>625,000</u>			
Net Change in Fund Balances	234,907	(16,339)	(92,492)		126,076
Fund Balances - Beginning (Restated)	3,104,983	251,723	4,521,634	6,364	7,884,704
Fund Balances - Ending	<u>\$ 3,339,890</u>	<u>\$ 235,384</u>	<u>\$ 4,429,142</u>	<u>\$ 6,364</u>	<u>\$ 8,010,780</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

CALLOWAY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ 126,076

Governmental Funds Report Capital Outlays As Expenditures.
However, In The Statement Of Activities, The Cost Of Those
Assets Are Allocated Over Their Estimated Useful Lives
And Reported As Depreciation Expense.

Capital Outlay 980,574

Depreciation Expense (433,289)

Book Value - Disposed Capital Assets (4,300)

Repayment Of Principal On Long-term Debt Consumes The
Current Financial Resources Of Governmental Funds. The
Transactions, However, Have No Effect On Net Assets

Financing Obligations Principal Payments 134,900

Bond Principal Payments 245,000

Change in Net Assets of Governmental Activities \$ 1,048,961

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CALLOWAY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

CALLOWAY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 16,375
Total Current Assets	<u>16,375</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Vehicles	12,130
Total Noncurrent Assets	<u>12,130</u>
Total Assets	<u>28,505</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	12,130
Unrestricted	16,375
Total Net Assets	<u>\$ 28,505</u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

CALLOWAY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Commissions	\$ 25,584
Vending	132
Total Operating Revenues	<u>25,716</u>
Operating Expenses	
Commissary Sales	97,150
Educational and Recreational	11,189
Vehicle Expenses	8,141
Depreciation	4,030
Personnel Costs	651
Miscellaneous	4,190
Total Operating Expenses	<u>125,351</u>
Operating Income (Loss)	<u>(99,635)</u>
Nonoperating Revenues (Expenses)	
Inmate Deposits	92,333
Recycling	1,199
Interest Income	51
Inmate Pay from State	5,679
Other Income	1,288
Other Expenses	<u>(4,064)</u>
Total Nonoperating Revenues (Expenses)	<u>96,486</u>
Change in Net Assets	(3,149)
Total Net Assets - Beginning (Restated)	<u>31,654</u>
Total Net Assets - Ending	<u><u>\$ 28,505</u></u>

The accompanying notes are an integral part of the financial statements.

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CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

CALLOWAY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Canteen Commissions	\$ 25,584
Vending	132
Commissary Sales	(97,150)
Educational and Recreational	(11,189)
Vehicle Maintenance	(8,141)
Personnel Costs	(651)
Miscellaneous	(4,190)
Net Cash Provided (Used) By Operating Activities	<u>(95,605)</u>
Cash Flows From Noncapital Financing Activities	
Inmate Deposits	92,333
Recycling Income	1,199
Inmate Pay From State	5,679
Other Income	1,288
Other Expenses	(4,064)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>96,435</u>
Cash Flows From Investing Activities	
Interest Earned	51
Net Cash Provided (Used) By Investing Activities	<u>51</u>
Net Increase (Decrease) in Cash and Cash Equivalents	881
Cash and Cash Equivalents July 1	<u>15,494</u>
Cash and Cash Equivalents June 30	<u><u>\$ 16,375</u></u>

The accompanying notes are an integral part of the financial statements.

CALLOWAY COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

		Business-Type Activities - Enterprise Fund
		Jail Canteen Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$	(99,635)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities		
Depreciation Expense		4,030
Net Cash Provided (Used) by Operating Activities	\$	(95,605)

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Calloway County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Calloway County Public Properties Corporation

The Calloway County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Calloway County's financial statements.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Calloway County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Calloway County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Calloway County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund – The purpose of this fund is to account for lease payments made by the Administrative Office of the Courts (AOC) for the payment of debt on the judicial building bond issue.

Special Revenue Funds:

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the fiscal court.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts at the date of the financial statements. Actual results could differ from those estimates.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

K. Related Organizations, Joint Venture, and Jointly Governed Organizations

Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Calloway County Fiscal Court:

Extension District	Industrial Development Authority	Water District #2
Library District	Conservation District	Lynn Grove Water District
Almo/Dexter Water District	South 641 Water District	Fire Districts

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)

Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Calloway County Fiscal Court:

Murray-Calloway County Hospital

The Calloway County Fiscal Court (Fiscal Court) has retained an ongoing financial interest for the Murray-Calloway County Hospital. The Hospital is a joint venture between the Fiscal Court and the City of Murray “to promote health and welfare and the development and operation of a viable integrated health delivery system” for the county, city, and surrounding communities. The Fiscal Court and City of Murray have equal ownership rights (50%) and are the exclusive members of the Hospital. Also, in the event of default, the Fiscal Court and the City of Murray would each be responsible for fifty percent of the obligations of the hospital.

Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly governed organizations of the Calloway County Fiscal Court:

Murray-Calloway County Park	Murray-Calloway County Senior Citizens
Murray-Calloway County Airport	Murray-Calloway County Transit Authority
Murray-Calloway County Economic Development Corporation	

L. Interfund Transactions

The Calloway County Fiscal Court has the following type of interfund transactions:

Interfund Transfers – Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. The composition of the interfund transfers is presented in Note 5. Note that at the entity-wide level, the interfund transfers have been eliminated. This is to avoid revenues and expenses from being reported more than once.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>	(Restated)			
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 348,227	\$	\$	\$ 348,227
Total Capital Assets Not Being Depreciated	348,227			348,227
Capital Assets, Being Depreciated:				
Buildings	9,650,427			9,650,427
Vehicles	845,323	53,270	(12,201)	886,392
Equipment	1,661,463	294,545		1,956,008
Infrastructure	1,938,660	632,759		2,571,419
Total Capital Assets Being Depreciated	14,095,873	980,574	(12,201)	15,064,246
Less Accumulated Depreciation For:				
Buildings	(2,545,438)	(192,439)		(2,737,877)
Vehicles	(270,292)	(78,538)	7,901	(340,929)
Equipment	(603,510)	(76,598)		(680,108)
Infrastructure	(264,946)	(85,714)		(350,660)
Total Accumulated Depreciation	(3,684,186)	(433,289)	7,901	(4,109,574)
Total Capital Assets, Being Depreciated, Net	10,411,687	547,285	(4,300)	10,954,672
Governmental Activities Capital Assets, Net	\$ 10,759,914	\$ 547,285	\$ (4,300)	\$ 11,302,899

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 37,658
Protection to Persons and Property	208,328
General Health and Sanitation	240
Recreation and Culture	31,951
Roads, Including Depreciation of General Infrastructure Assets	<u>155,112</u>

Total Depreciation Expense - Governmental Activities	<u><u>\$ 433,289</u></u>
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Capital asset activity for Business-Type Activities for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>	(Restated)			
Capital Assets, Being Depreciated:				
Vehicles	\$ 39,900	\$	\$	\$ 39,900
Total Capital Assets Being Depreciated	<u>39,900</u>			<u>39,900</u>
Less Accumulated Depreciation For:				
Vehicles	<u>(23,740)</u>	<u>(4,030)</u>		<u>(27,770)</u>
Total Accumulated Depreciation	<u>(23,740)</u>	<u>(4,030)</u>		<u>(27,770)</u>
Total Capital Assets, Being Depreciated, Net	<u>16,160</u>	<u>(4,030)</u>		<u>12,130</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 16,160</u></u>	<u><u>\$ (4,030)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 12,130</u></u>

Depreciation expense was charged to functions of the Business-Type Activities as follows:

Business-Type Activities

Jail Canteen	<u>\$ 4,030</u>
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Total Depreciation Expense - Governmental Activities	<u><u>\$ 4,030</u></u>
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CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt

A. Public Properties Corporation – 2008 Refunded Bonds

The Calloway County Public Properties Corporation reissued Refunded Revenue Bonds; Series 2008 dated July 15, 2008 for \$2,590,000 to be used for the retirement of Bond Series 2007. Interest is payable semi-annually for 10 years and varies from 3.93 percent to 5.1 percent. The Calloway County Public Properties Corporation has leased the building to the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), and AOC is providing the debt service payments as described in the aforementioned lease. As of June 30, 2011, Calloway County is in compliance with the bond agreement. The principal balance as of June 30, 2011 was \$1,975,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 255,000	\$ 71,298
2013	265,000	63,137
2014	270,000	54,260
2015	280,000	44,810
2016	290,000	34,730
2017-2018	<u>615,000</u>	<u>36,600</u>
Totals	<u>\$ 1,975,000</u>	<u>\$ 304,835</u>

B. Financing Obligation - Road Equipment

On April 4, 2007, Calloway County entered into a financial agreement with US Bank to purchase four tractors for \$177,000. The terms of this agreement consist of sixty principal and interest payments due monthly at an interest rate of 3.66 percent. As of June 30, 2011, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2011 was \$27,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 27,000	\$ 684
Totals	<u>\$ 27,000</u>	<u>\$ 684</u>

C. Financing Obligation - County Clerk Equipment

On December 15, 2009, Calloway County financed the remaining balance of \$38,000 with Regions Bank for the purchased equipment of the Calloway County Clerk. The terms of the agreement consist of forty-eight principal and interest payments of \$883 each. This debt bears an interest rate of 4.64 percent. As of June 30, 2011, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2011 was \$26,240

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt (Continued)

C. Financing Obligation - County Clerk Equipment (Continued)

Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 9,397	\$ 1,198
2013	9,922	672
2014	<u>6,921</u>	<u>142</u>
Totals	<u>\$ 26,240</u>	<u>\$ 2,012</u>

D. Financing Obligation - 2007 Mack Truck

On March 31, 2008, Calloway County entered into a financial agreement with the Bank of New York & Worldwide Equipment to purchase two Mack trucks for \$205,974. The note was refinanced with US Bank on March 10, 2009 in the amount of \$200,669. As of June 30, 2011, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2011 was \$105,669. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 50,000	\$ 3,876
2013	<u>55,669</u>	<u>1,544</u>
Totals	<u>\$ 105,669</u>	<u>\$ 5,420</u>

E. Financing Obligation - Grade-All

On November 14, 2008, Calloway County entered into a financial agreement with US Bank to purchase a Grade-all for the Road Department for \$196,000. The terms of this agreement consist of five yearly principal payments and monthly interest payments. This debt bears an interest rate of 3.99 percent. As of June 30, 2011, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2011 was \$81,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 40,000	\$ 3,005
2013	<u>41,000</u>	<u>1,180</u>
Totals	<u>\$ 81,000</u>	<u>\$ 4,185</u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Long-term Debt (Continued)

D. Changes in Long-Term Debt

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Refunding Bonds	\$ 2,220,000	\$	\$ 245,000	\$ 1,975,000	\$ 255,000
Financing Obligations	374,809		134,900	239,909	126,397
Governmental Activities					
Long-term Liabilities	<u>\$ 2,594,809</u>	<u>\$ 0</u>	<u>\$ 379,900</u>	<u>\$ 2,214,909</u>	<u>\$ 381,397</u>

Note 5. Interfund Transfers

	General Fund	Total Transfers In
Road Fund	<u>\$ 625,000</u>	<u>\$ 625,000</u>
Total Transfers Out	<u>\$ 625,000</u>	<u>\$ 625,000</u>

Reason for transfers:

To move resources from the General Fund to the Road Fund, for budgetary purposes, to be expended.

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$14,476 in interest on financing obligations and \$78,648 in interest on bonds.

Note 7. Commitments

A. Commitment - Grader Lease

On December 6, 2007, the County entered into an agreement with John Deere Credit for the use of two graders for thirty six months. The terms of this lease consisted of thirty six monthly payments of \$4,111 beginning December 20, 2007 and ending November 20, 2010. As of June 30, 2011, all payments have been made and the corresponding assets have been returned.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Commitments (Continued)

B. Commitment - Grader Lease

On April 25, 2011, the County entered into an agreement with John Deere Credit for the use of two graders for thirty six months at which time they are expected to be returned. The terms of this lease consist of thirty six monthly payments of \$4,211 beginning April 26, 2011, and ending March 26, 2014. As of June 30, 2011, Calloway County was in compliance with the terms of the agreement. Future obligations are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Total Lease Payments</u>
2012	\$ 50,527
2013	50,527
2014	<u>37,895</u>
Totals	<u>\$ 138,949</u>

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2011 was \$538,599.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

For the fiscal year ended June 30, 2011, the Calloway County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 9. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2011, Calloway County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustments

Net Asset Beginning Balance For Governmental Activities

The prior year ending balance for governmental activities has been restated for the following:

	<u>Governmental Activities</u>
Net Assets Ending Balance Prior Year	\$ 16,057,547
Plus:	
Prior Year Voided Checks	324
Less:	
Net Value of Vehicles Erroneously Included in Prior Year	\$ (7,962)
Adjustment to Accumulated Depreciation	<u>(100)</u> <u>(8,062)</u>
Net Assets Beginning Balance - Restated	<u><u>\$ 16,049,809</u></u>

Net Asset Beginning Balance For Business-Type Activities

The prior year ending balance for business-type activities has been restated for the following:

	<u>Business-Type Activities</u>
Net Assets Ending Balance Prior Year	\$ 34,144
Plus:	
Net Value of Vehicles Excluded in Prior Year	800
Less:	
Adjustment to Accumulated Depreciation	<u>(3,290)</u>
Net Assets Beginning Balance - Restated	<u><u>\$ 31,654</u></u>

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note. 12. Change in Accounting Principles

The Calloway County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet – Governmental Funds. The implementation also resulted in three funds previously presented as special revenue funds that no longer meet the definition to be rolled into the General and Jail Funds.

As a result, the beginning Fund Balance for the General Fund has been increased for the addition of the previously reported Local Government Economic Assistance Fund (LGEA) and the Jail Grant Fund. The effect of the change is a total increase of \$1,349,623. The beginning Fund Balance for the Jail Fund has been increased for the addition of the previously reported Jail Construction Fund. The effect of the change is a total increase of \$3,887,678.

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CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,255,200	\$ 2,255,200	\$ 2,708,796	\$ 453,596
In Lieu Tax Payments	187,000	187,000	225,223	38,223
Excess Fees	154,500	154,500	174,586	20,086
Licenses and Permits	50,100	50,100	63,456	13,356
Intergovernmental Revenue	890,700	1,016,700	661,902	(354,798)
Charges for Services	4,000	4,000	7,648	3,648
Miscellaneous	106,000	106,000	76,113	(29,887)
Interest	1,000	1,000	20,344	19,344
Total Revenues	3,648,500	3,774,500	3,938,068	163,568
EXPENDITURES				
General Government	2,120,029	2,435,925	2,072,233	363,692
Protection to Persons and Property	91,533	116,137	158,084	(41,947)
General Health and Sanitation	543,891	442,899	394,680	48,219
Social Services	39,700	39,700	31,264	8,436
Recreation and Culture	137,746	137,746	135,846	1,900
Airports			15,000	(15,000)
Debt Service	75,000	49,073		49,073
Capital Projects	192,000	193,115		193,115
Administration	550,900	462,204	303,265	158,939
Total Expenditures	3,750,799	3,876,799	3,110,372	766,427
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(102,299)	(102,299)	827,696	929,995
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(643,149)	(643,149)	(625,000)	18,149
Transfers From Other Funds	320,047	320,047		(320,047)
Total Other Financing Sources (Uses)	(323,102)	(323,102)	(625,000)	(301,898)
Net Changes in Fund Balance				
	(425,401)	(425,401)	202,696	628,097
Fund Balance - Beginning	425,401	425,401	1,755,360	1,329,959
Fund Balance - Ending				
	\$ 0	\$ 0	\$ 1,958,056	\$ 1,958,056

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,683,468	\$ 2,054,575	\$ 2,113,954	\$ 59,379
Charges for Services	50,000	50,000		(50,000)
Miscellaneous	75,000	75,000	60,507	(14,493)
Interest	1,000	1,000	1,181	181
Total Revenues	1,809,468	2,180,575	2,175,642	(4,933)
EXPENDITURES				
Protection to Persons and Property	35,000	35,000		35,000
Roads	1,882,015	1,589,547	1,470,079	119,468
Debt Service	225,000	225,000	187,774	37,226
Capital Projects	181,760	865,104	851,093	14,011
Administration	369,688	349,919	308,035	41,884
Total Expenditures	2,693,463	3,064,570	2,816,981	247,589
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(883,995)	(883,995)	(641,339)	242,656
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	643,149	643,149	625,000	(18,149)
Governmental Leasing Act Receipts	5,000	5,000		(5,000)
Total Other Financing Sources (Uses)	648,149	648,149	625,000	(23,149)
Net Changes in Fund Balance	(235,846)	(235,846)	(16,339)	219,507
Fund Balance - Beginning	235,846	235,846	251,723	15,877
Fund Balance - Ending	\$ 0	\$ 0	\$ 235,384	\$ 235,384

CALLOWAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,201,000	\$ 1,201,000	\$ 1,225,708	\$ 24,708
Charges for Services	114,000	114,000	110,296	(3,704)
Miscellaneous	57,000	57,000	37,500	(19,500)
Interest	5,000	5,000	8,235	3,235
Total Revenues	<u>1,377,000</u>	<u>1,377,000</u>	<u>1,381,739</u>	<u>4,739</u>
EXPENDITURES				
Protection to Persons and Property	1,487,700	1,496,144	1,242,762	253,382
Administration	453,900	445,456	346,826	98,630
Total Expenditures	<u>1,941,600</u>	<u>1,941,600</u>	<u>1,589,588</u>	<u>352,012</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(564,600)</u>	<u>(564,600)</u>	<u>(207,849)</u>	<u>356,751</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>289,600</u>	<u>289,600</u>		<u>(289,600)</u>
Total Other Financing Sources (Uses)	<u>289,600</u>	<u>289,600</u>		<u>(289,600)</u>
Net Changes in Fund Balance	(275,000)	(275,000)	(207,849)	67,151
Fund Balance - Beginning	<u>275,000</u>	<u>275,000</u>	<u>633,956</u>	<u>358,956</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 426,107</u>	<u>\$ 426,107</u>

CALLOWAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation To The Statement Of Revenues, Expenditures And Changes In Fund Balances – Governmental Funds – Modified Cash Basis

General Fund

Beginning Fund Balance- Budgetary Basis	\$ 1,755,360
Jail Grant Fund - Beginning Fund Balance	<u>1,349,623</u>
Beginning Fund Balance - Modified Cash Basis	<u><u>\$ 3,104,983</u></u>
Total Revenues - Budgetary Basis	\$ 3,938,068
LGEA Fund - Revenues	6,131
Jail Grant Fund - Revenues	<u>32,211</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 3,976,410</u></u>
Total Expenditures - Budgetary Basis	\$ 3,110,372
LGEA Fund - Budgeted Expenditures	<u>6,131</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 3,116,503</u></u>
Ending Fund Balance - Budgetary Basis	\$ 1,958,056
Jail Grant Fund - Ending Fund Balance	<u>1,381,834</u>
Fund Balance - Ending - Modified Cash Basis	<u><u>\$ 3,339,890</u></u>

CALLOWAY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2011
(Continued)

**Reconciliation To The Statement Of Revenues, Expenditures And Changes In Fund Balances –
 Governmental Funds – Modified Cash Basis (Continued)**

Jail Fund

Beginning Fund Balance- Budgetary Basis	\$ 633,956
Jail Construction Fund - Beginning Fund Balance	<u>3,887,678</u>
Beginning Fund Balance - Modified Cash Basis	<u><u>\$ 4,521,634</u></u>
Total Revenues - Budgetary Basis	\$ 1,381,739
Jail Construction Fund - Revenues	<u>115,357</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 1,497,096</u></u>
Ending Fund Balance - Budgetary Basis	\$ 426,107
Jail Construction Fund - Ending Fund Balance	<u>4,003,035</u>
Fund Balance - Ending - Modified Cash Basis	<u><u>\$ 4,429,142</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive
Members of the Calloway County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Calloway County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 7, 2012. Calloway County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Calloway County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Calloway County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Calloway County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Calloway County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-01 and 2011-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2011-03 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Calloway County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Calloway County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 7, 2012

**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

**CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-01 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure

Material weaknesses exist over the reporting of capital assets and infrastructure of Calloway County. Capital assets records were incomplete as to county assets, depreciation amounts, accumulated depreciation amounts, and current year disposals.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation.

In order to strengthen the county's internal controls over capital assets and infrastructure, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are purchased. It should also be updated as to annual depreciation and accumulated depreciation amounts and current year disposals. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

County Judge Executive Larry Elkin's Response: We will comply.

2011-02 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Liabilities And Debt Service

Material weaknesses exist over the reporting of liabilities and debt of Calloway County. The June 30, 2011 outstanding debt balances reported on the 4th Quarter Financial Report were materially misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls such as comparisons of payment amounts and outstanding balances to amortization and payment schedules should be made regularly. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge Executive Larry Elkin's Response: The public properties for the judicial building which the state of KY makes the payment was figured incorrectly and was corrected the next quarter 09/30/11.

CALLOWAY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY

2011-03 Calloway County Fiscal Court Should Strengthen Internal Controls Over The Sale Of Road Material At The County Road Department

Audit testing over receipts for the sale of road materials at the county road department revealed significant deficiencies. Under the current process, pre-numbered receipt are being issued, however, these receipts forms are not being batched or issued in order. Therefore, the numerical sequence cannot be accounted for properly.

Strong internal controls over receipts, especially cash receipts at decentralized locations, are very vital to ensuring protection to those receipts from misappropriation. Strong internal controls not only protect the assets at stake, but also protect the employees involved.

In order to strengthen the internal control process over sales at the county road department, we recommend the county continue to issue pre-numbered receipts to all customers. However, these receipts should be issued in order, and document the amount and method of payment. At the end of the day, the receipt forms should be batched and reconciled to the cash and checks on hand. All documentation should then be turned over to the County Treasurer, preferably on a daily basis, to be recounted and reconciled to the receipt forms, accounting for the numerical sequence. After the receipts have been recounted and discrepancies have been resolved, the County Treasurer should deposit the funds and post to the receipts ledger.

County Judge Executive Larry Elkin's Response: We spoke with the road supervisor and he will comply.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CALLOWAY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CALLOWAY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Calloway County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

